A Monthly Report from The Conference Board

INTERNATIONAL ECONOMIC SCOREBOARD

The Conference Board

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DECEMBER, 1983

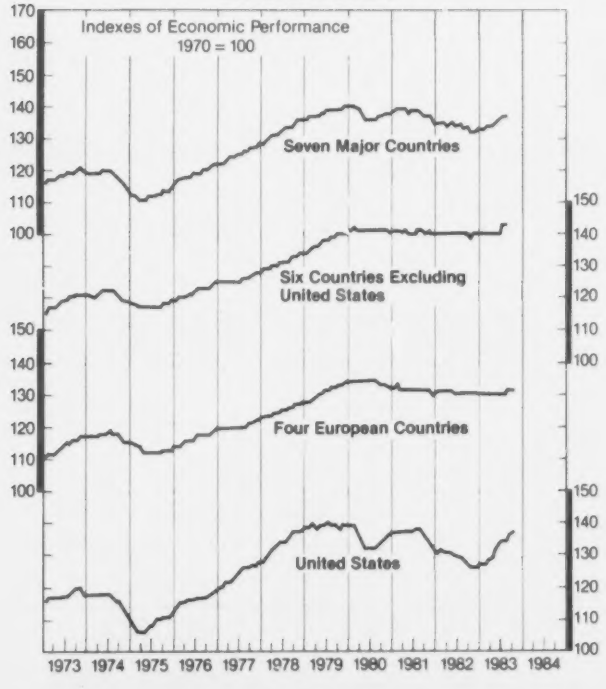
SUMMARY

The leading business cycle indexes are rising at double-digit rates in Canada, the United States, Japan and France. More modest growth rates rule the leading indexes for West Germany, Italy and the United Kingdom. Taking all seven major industrial countries, together, the latest growth rates of the leading indexes exceed the 1966-1976 trend rates. A look at the indexes of economic performance, which track the current course of the economy, shows them to be advancing sharply in the U.S. and Canada, more slowly elsewhere.

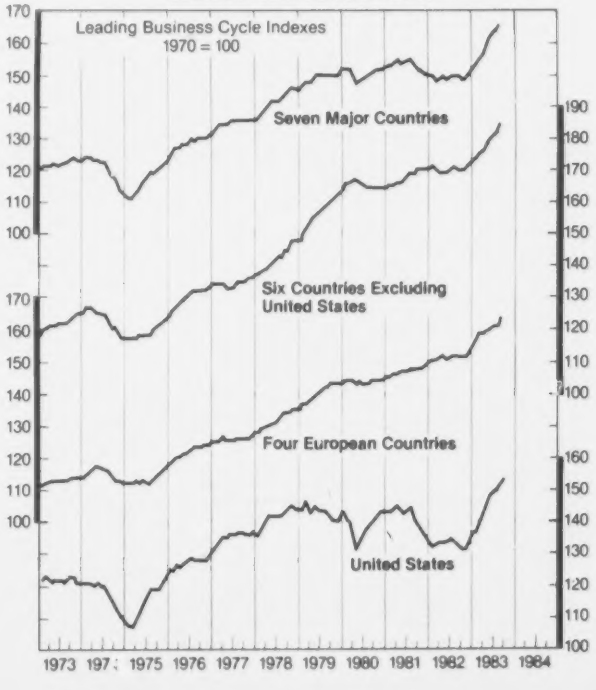
		*Indexes of Economic Performance Growth Rates**			*Leading Business Cycle Indexes Growth Rates**				
	Ten-year Growth Rate 1966-76	*6 mos. ago*	*3 mos. ago*	*Latest month*	*6 mos. ago*	*3 mos. ago*	*Latest month*	*Current Reading on the Cycle*	*Latest Month Covered*
	annual rates, percent								
United States	3	2	8	11	13	19	16	Strong expansion continuing	Oct.
Canada	5	0	5	7	13	15	19	Strong expansion continuing	Sept.
Japan	8	0	1	3	-1	9	13	Recovery under way	Sept.
United Kingdom	2	1	0	1	5	4	3	Leaders advancing; economy slugglish	Sept.
West Germany	4	0	2	1	7	8	8	Leaders advancing sharply; economy sluggish	Sept.
France	5	2	1	3	8	8	13	Recovery under way	Sept.
Italy	4	-5	-6	-1	3	7	5	Leaders advancing; economy weak	July/June
7 countries	4	0	4	6	7	13	14	Recovery continuing	Sept.
6 countries excl. U.S.	5	0	1	2	5	8	11	Recovery continuing	Sept.
4 European countries	4	0	0	1	7	7	8	Recovery getting under way	Sept.

* Annual rate based on ratio of current month's index to average index over the preceding 12 months.

Where We Are


Indexes of Economic Performance
1970 = 100
Seven Major Countries
Six Countries Excluding United States
Four European Countries
United States
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984

Where We're Headed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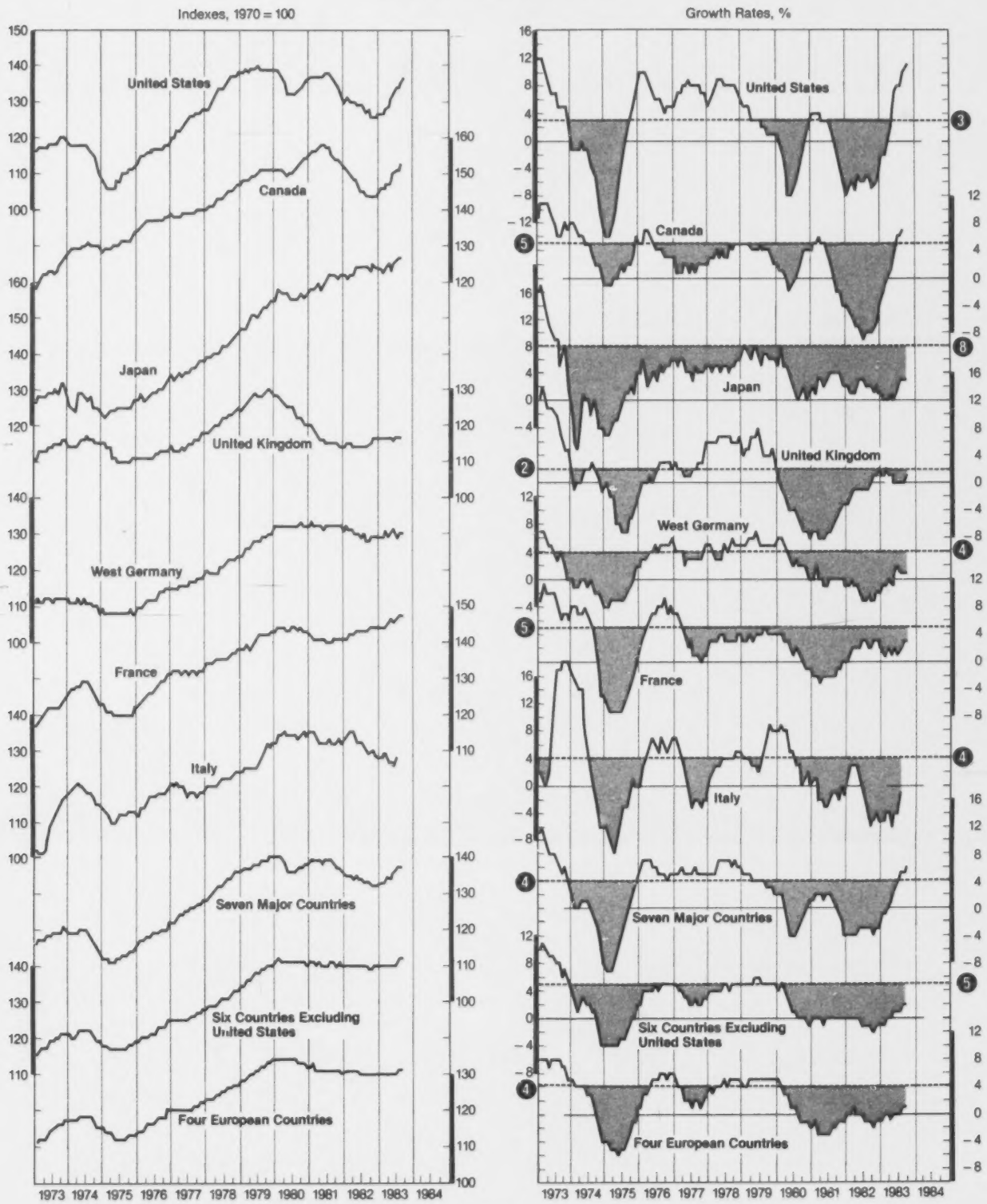
Where We Are

Indexes of Economic Performance

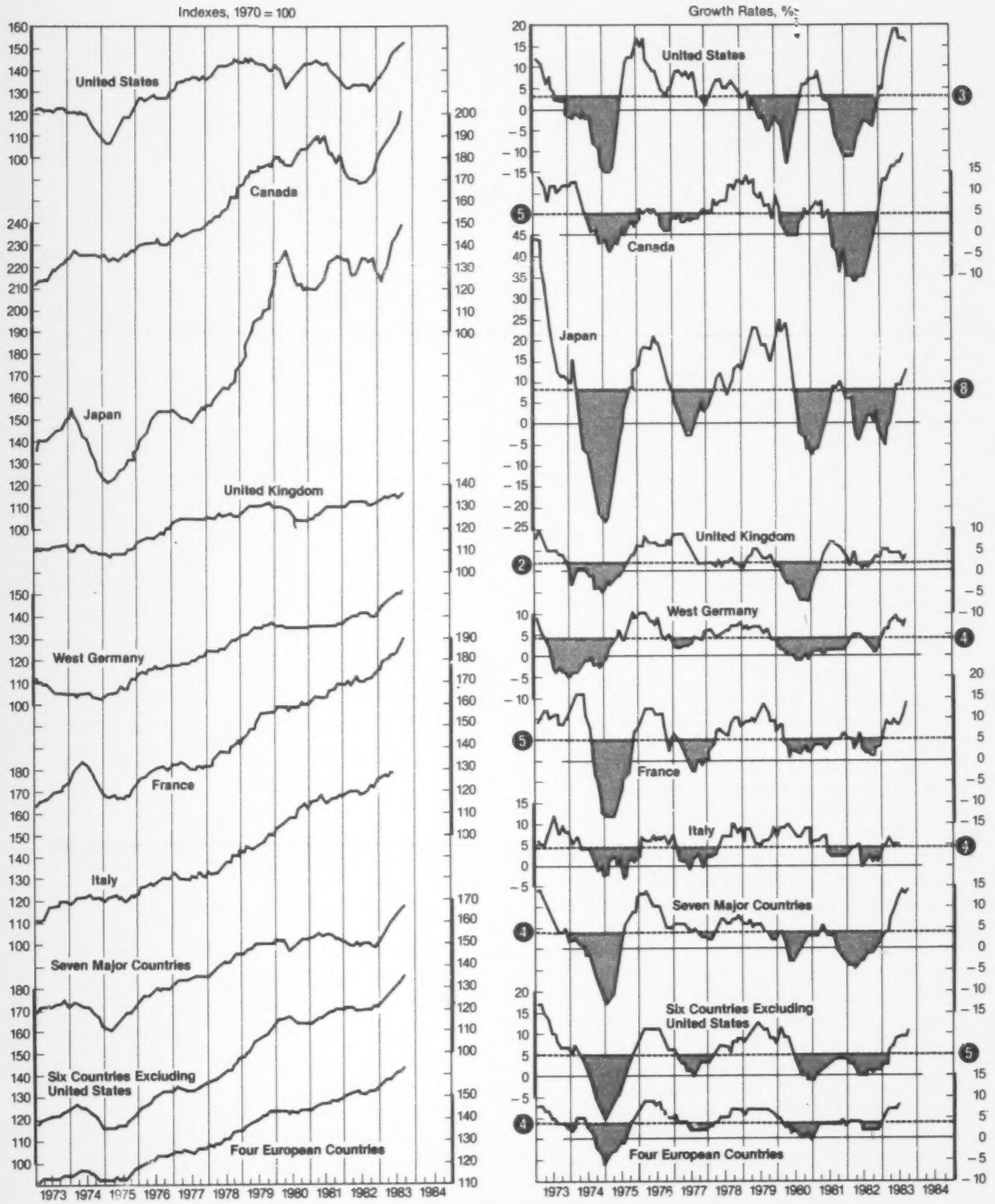


Note: Horizontal dashed lines are average growth rates for 1966-76 in the index and in real GNP

Source: The Conference Board

Where We're Headed

Leading Business Cycle Indexes



Note: Horizontal dash lines are average growth rates for 1966-76 in the index and in real GNP

Source: The Conference Board

A NEW TOOL FOR MONITORING THE INTERNATIONAL INDEXES

The past is prologue. Users of leading indicators are certainly aware of this, since they rely upon changes in these indicators in the recent past to signal future changes in the economy's performance. But there is another way to use past records of the indicators as a guide to future changes. That is by comparing the current business cycle as it emerges with the corresponding trend in past cycles and with what was then their future trend. This is easier to see in pictures than to say in words, so we'll let the accompanying recession-recovery charts help tell the story. (See page 5)

All the charts compare the indexes and their growth rates during the current business cycle upswing in the United States with their average behavior during four previous U.S. upswings. These prior expansions ran from 1958 to 1960, 1961 to 1969, 1970 to 1973 and 1975 to 1980. Although the shortest of these lasted only two years while the longest lasted nearly nine, their initial stages had a good deal in common. They had a good deal in common, too, with the initial stages of the current expansion. In previous expansions the U.S. leading index moved up sooner and more vigorously than the U.S. performance index. But about a year after the recovery began, which is where we are now, the leading index began to slow down, and a few months later, so did the performance index. Nevertheless, the slowdown did not put an end to the expansion, and if the past is prologue, it won't do that in 1984 either.

The composite indexes for the six countries excluding the United States have usually experienced upswings during U.S. expansions. Once again, they have begun to do that in the current expansion. This means that support for the U.S. expansion has begun to come from abroad, and also that the U.S. expansion is helping to generate recovery abroad. So far, the leading index for the six countries has risen much more vigorously than the performance index, and it has also risen more rapidly than in past U.S. recoveries. But the performance index has started to catch up, both with the leading index and with its own past record.

By mid-1984, if the past is prologue, the growth rates of both the leading and the performance indexes of the six countries should have leveled out at about a seven percent annual rate. At the same time, if the U.S. indexes follow their previous path, they will have slowed to around a four or five percent rate. A reasonably pleasant prospect all around, and an attainable one since, as the records show, it has already been attained in previous expansions.

The charts are designed to be readily brought up to date so that one can see whether the current situation is beginning to differ significantly from the past pattern. Scoreboard readers may wish to keep them at hand for that purpose. From time to time we'll make a new evaluation or bring out a new angle.

EUROPEAN TRADE RECOVERY

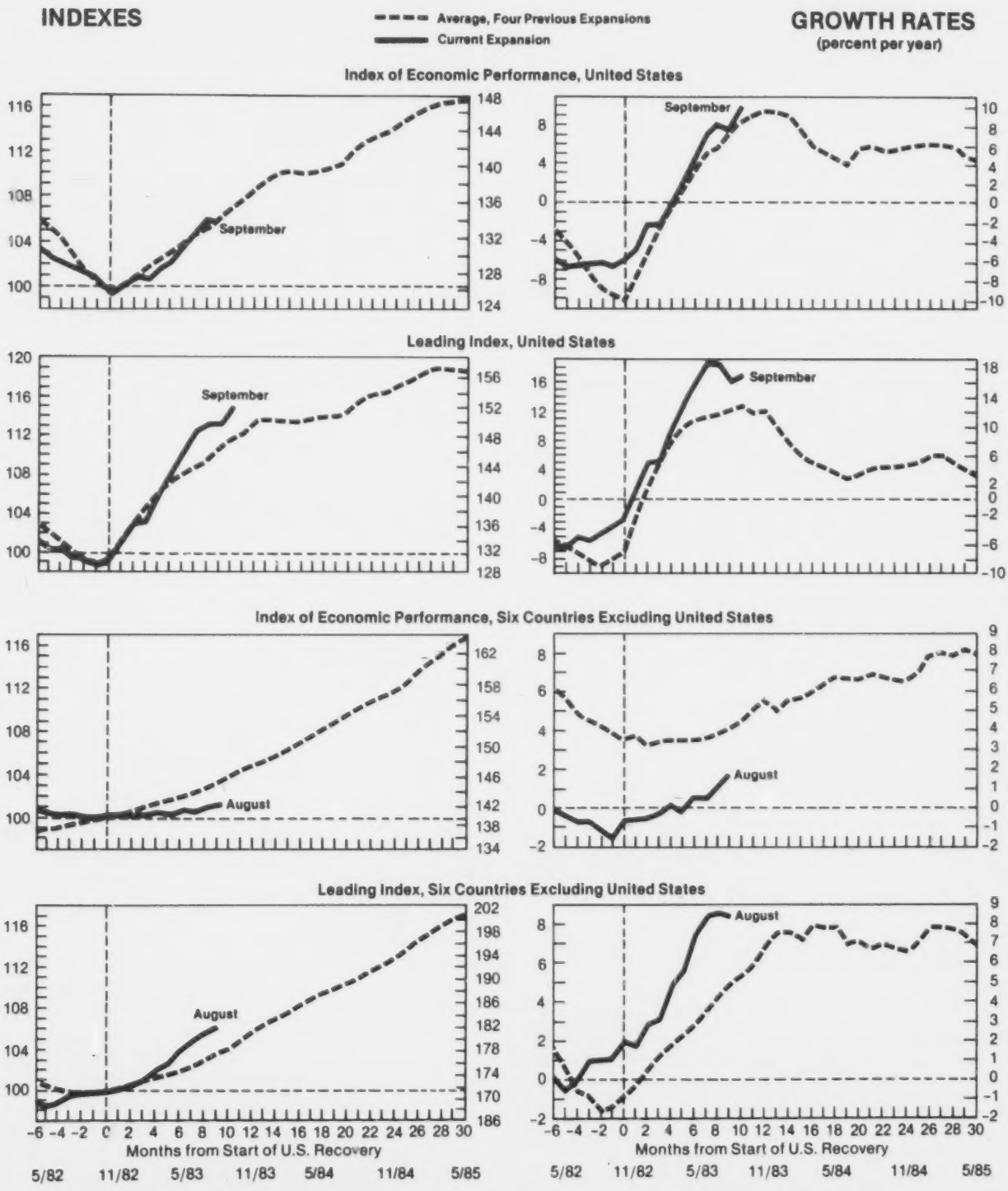
Previous issues of the *Scoreboard* (April 1983, June 1982) have discussed the use of the leading indexes in forecasting imports and exports. Recent studies conducted at Columbia University's Center for International Business Cycle Research have shown how the indexes can be used to forecast trade flows in and out of countries in the European Economic Community. The current figures present a very favorable outlook.

The underlying idea is to use the leading index as a barometer of the domestic demand for goods and services, and hence of imports. Leading indicators such as new orders for goods, the accumulation of inventories, trends in profit margins, or the extension of credit foreshadow changes not only in domestic demand, but also in the demand for imports of materials and finished products. By the same token, export trends are foreshadowed by leading indicators for the country or countries to which the exports go. Naturally, the leading indexes do not capture all the influences affecting the volume of trade, such as changes in exchange rates, crop harvest conditions, tariffs or quotas, etc. They do, however, account for a major portion of the yearly changes in trade flows of many countries.

Applying this idea to the aggregate imports and exports of the ten EEC countries, we use the composite leading index for the four European countries to forecast EEC imports, and the composite leading index for the U.S., Canada, and Japan to forecast EEC exports. That is, a European index is used to forecast imports, and a non-European index to forecast exports. Specifically, the growth rate in the indexes at the end of the year is used to forecast the percentage change in the volume of trade (in constant prices) from that year to the next.

Since we do not yet have end-of-1983 growth rates, we use the latest we have and assume they will not change much by year-end. For 1984, this method projects a 9% increase in EEC imports over 1983 and a 12% increase in EEC exports. Judging from the past record, the export forecast is probably the more accurate of the two. It is more optimistic than the import forecast because the leading indexes for the U.S., Canada and Japan are rising faster than the European index. The implication is that Europe's trade balance will register a surplus in 1984, at the highest level in the past dozen years. This in turn should hasten Europe's economic recovery and enhance its contribution to improved economic conditions around the world.

RECESSION-RECOVERY PATTERNS



Note: For the indexes, the left scale applies to both the current and previous expansions, with the business cycle trough = 100; the right scale applies to the current expansion, with 1970 = 100.

INDEXES, SEVEN COUNTRIES, 1982-83

		U.S.		Canada		Japan		U.K.		West Germany		France		Italy		7 Countries		6 Countries ex U.S.		4 Countries Europe	
		Indexes, 1970 = 100																			
		Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.	Perf.	Lead.
Oct.	82	126	130	144	171	163	223	115	131	128	140	144	171	129	172	132	149	139	170	130	152
Nov.	82	126	131	144	172	165	224	116	131	129	140	144	172	130	171	132	149	140	171	130	152
Dec.	82	126	133	144	176	164	219	116	132	129	142	144	173	129	173	132	150	140	171	130	153
Jan.	83	127	136	146	181	164	216	116	133	129	144	144	176	128	175	133	152	140	172	130	155
Feb.	83	127	136	146	183	163	214	116	134	129	145	144	179	129	176	133	153	140	173	130	157
Mar.	83	128	139	147	184	164	218	116	135	130	146	145	179	129	178	134	156	140	175	130	158
Apr.	83	129	142	147	187	165	220	116	134	129	148	144	180	127	177	134	157	140	176	130	158
May	83	131	145	148	189	164	225	116	135	130	149	146	182	127	178	135	160	140	178	130	159
June	83	133	148	150	190	165	231	115	135	131	149	145	182	126	178	136	162	140	180	130	160
July	83	134	149	151	194	166	232	116	136	128	150	146	184	128		137	164	141	181	130	161
Aug.	83	134	150	151	196	167	235	116	134	130	150	147	186			137	165	142	182	131	161
Sept.	83	136	152	153	201	167	239	116	136	130	151	147	190				167	142	185	131	163
Oct.	83	137	153																		
		Growth Rates, Percent																			
Oct.	82	-7	-4	-8	-1	1	1	1	2	-3	1	3	2	-5	2	-4	-1	-1	1	-1	2
Nov.	82	-6	-3	-7	1	2	3	1	3	-2	1	3	3	-4	1	-3	0	-1	2	-1	2
Dec.	82	-5	1	-5	5	1	-2	2	3	-2	3	2	3	-5	3	-3	2	-1	2	-1	3
Jan.	83	-2	5	-3	12	1	-4	1	5	-1	6	2	5	-5	4	-1	4	0	3	-1	5
Feb.	83	-2	5	-2	13	0	-5	2	5	-1	6	1	9	-4	5	-1	4	0	3	0	6
Mar.	83	0	10	0	13	0	-1	1	5	0	7	2	8	-4	7	0	7	0	5	0	7
Apr.	83	2	13	1	16	1	0	1	4	-1	8	1	8	-6	5	1	9	0	6	-1	7
May	83	5	16	3	16	0	5	0	4	1	9	2	9	-4	5	3	12	1	7	0	7
June	83	7	19	5	15	1	9	0	4	2	8	1	8	-4	5	4	13	1	8	0	7
July	83	8	19	6	17	3	9	0	4	-1	8	2	9	-1		5	14	1	9	0	7
Aug.	83	8	17	6	17	3	11	0	1	1	7	3	11			5	13	2	9	1	7
Sept.	83	10	17	7	19	3	13	1	3	1	8	3	13			6	14	2	11	1	8
Oct.	83	11	16																		
		Ten-Year Annual Growth Rate, Percent																			
1966-76		3	3	5	5	8	8	2	2	4	4	5	5	4	4	4	4	5	5	4	4

THE INTERNATIONAL ECONOMIC INDICATOR SYSTEM

Beginning in mid-1983, each issue of the *Scoreboard* includes indexes of economic performance for the major industrial nations, in addition to the leading indexes that have always been the main statistical building blocks of the analysis. These economic performance indexes are composites of such series as real GNP, industrial production, employment and sales—what analysts call "coincident" series, because they *define* the business cycle.

The leading indexes are composites of such series as new orders, construction contracts, corporate profits and stock prices—indicators that usually anticipate changes in production and employment by several months. Thus the indexes of economic performance tell us the current status of the business cycle, i.e., where we are, while the leading indexes tell us where the economy is headed.

Experience has shown that when the leading index begins to rise faster, it is a fairly safe rule that the economy will soon begin to rise faster too—typically after three or four months. When the leading index begins to rise more slowly or to decline, the economy is likely to follow suit shortly thereafter. (For details, see "What the Leading Indicators Indicate," *Across The Board,* April 1980 and *Business Cycles, Inflation and Forecasting,* Balinger Publishing Co., 1983.) Considerable variation in the length of lead is to be expected, however, so that constant monitoring is needed for effective use of the system. Among the uses of these data are tracking recessions and recoveries, anticipating changes in foreign trade flows, and providing early warning of new inflationary trends.

These indexes for the seven major industrial nations were developed by Geoffrey H. Moore and Philip A. Klein, and are maintained by the Center for International Business Cycle Research at the Columbia Business School. (The U.S. leading index used here differs slightly from the index reported monthly by the U.S. Dept. of Commerce.) To facilitate analysis the indexes are adjusted so their long-run growth rates are equal to those in real GNP in the country concerned during 1966-1976. These growth rates are shown at the bottom of the table on the back page and by horizontal lines on the right panel of the charts on pages 2 and 3.

For More Information and Instruction

To find out more about this indicator system, the availability of detailed data for each country, and a training program in the methodology and application of the systems, please address inquiries to

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